

# **City of Asheville, North Carolina**

## **Comprehensive Annual Financial Report With Single Audit Compliance Supplements**

**Fiscal Year Ended June 30, 2004**

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**Prepared by the Finance Department**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Asheville,  
North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Enen*

Executive Director

**CITY OF ASHEVILLE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2004**

**TABLE OF CONTENTS**

<b>INTRODUCTORY SECTION (unaudited):</b>	<b><u>Page(s)</u></b>
GFOA Certificate of Achievement	ii
Table of Contents	iii – vi
Organizational Chart	vii
City Mission Statement and Statement of Values	viii
Letter of Transmittal	ix - xv
 <b>FINANCIAL SECTION:</b>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-17
 <b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets - Exhibit A	18
Statement of Activities - Exhibit B	19 - 20
Fund Financial Statements:	
Balance Sheet - Governmental Funds - Exhibit C	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Exhibit D	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Exhibit E	23
Statement of Revenues, Expenditures, and Changes in Fund Balance - Annual Budget and Actual - General Fund - Exhibit F	24
Statement of Fund Net Assets - Proprietary Funds - Exhibit G	25
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds - Exhibit H	26
Statement of Cash Flows - Proprietary Funds - Exhibit I	27 - 28
Statement of Fiduciary Assets and Liabilities - Agency Fund - Exhibit J	29
Notes to the Basic Financial Statements	30 - 60

## TABLE OF CONTENTS

<b>Required Supplementary Information:</b>	<b><u>Page(s)</u></b>
Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress	61
Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions	62
<b>Combining and Individual Fund Statements and Schedules:</b>	
Combining Balance Sheet - Non-Major Governmental Funds	63 - 64
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	65 - 66
Schedules of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual:	
Grant Programs Special Revenue Fund	67
Community Development Special Revenue Fund	68
Section 108 Rehabilitation Special Revenue Fund	69
Affordable Home Ownership Special Revenue Fund	70
Federal Capital Projects Fund	71
General Capital Projects Fund	72 - 73
Street/Sidewalk and Storm Drainage Improvement Capital Projects Fund	74
Sewer Capital Projects Fund	75
Schedules of Revenue and Expenditures - Budget and Actual (Non-GAAP) - Proprietary Funds: Major Enterprise Fund	
Water Resources Fund	76
Water Bond Capital Projects Fund	77
Water Major Capital Projects Fund	78
Combining Statement of Net Assets - Non-major Enterprise Funds	79 - 80
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Non-major Enterprise Funds	81
Combining Statement of Cash Flows - Non-major Enterprise Funds	82 - 83

## TABLE OF CONTENTS

Schedules of Revenue and Expenditures - Budget and Actual (Non-GAAP) -	<b><u>Page(s)</u></b>
Proprietary Funds: Non-major Enterprise Funds	
Civic Center Fund	84
Civic Center Capital Projects Fund	85
Parking Services Fund	86
Parking Services Capital Projects Fund	87
Festivals Fund	88
Mass Transit Fund	89
Mass Transit Capital Projects Fund	90
Statement of Changes in Assets and Liabilities - Agency Fund	91
 <b>Other Supplemental Information:</b>	
Schedule of Ad Valorem Taxes Receivable	92
Analysis of Current Tax Levy and Secondary Market Disclosures -	
City-Wide Levy	93
 <b>STATISTICAL SECTION (Unaudited):</b>	
General Governmental Expenditures by Function	94 - 95
General Governmental Revenues by Source	96
Property Tax Levies and Collections	97
Assessed Value of Taxable Property	98
Property Tax Rates - Direct and Overlapping Governments	99
Principal Taxpayers	100
Computation of Legal Debt Margin - Direct and Overlapping Bonded Debt	101
Ratio of Net General Obligation Bonded Debt to Assessed Value and	
Net General Obligation Bonded Debt Per Capita	102 - 103
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt	
to Total General Governmental Expenditures	104
Demographic Statistics	105
Construction Activity and Bank Deposits	106
Miscellaneous Statistics	107
Water System Statistics	108
Principal Water Customers	109
Water System Statistics Historical Demand	110
Water System Net Income Projections and Income Available for Debt Service	111

## TABLE OF CONTENTS

<b>COMPLIANCE SECTION:</b>	<b><u>Page(s)</u></b>
Schedule of Expenditures of Federal and State Awards	112 -116
Schedule of Revenues and Expenditures - High Unit Cost Grant Project Number DEH0930	117
Schedule of Revenues and Expenditures - High Unit Cost Grant Project Number DEH0772	118
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	119 - 120
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	121 - 122
Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act	123 - 124
Schedule of Findings and Questioned Costs	125 - 126
Summary of Schedule of Prior Year Audit Findings	127

CITIZENS OF ASHEVILLE

CITY COUNCIL  
Charles R. Worley, Mayor  
Carl Mumpower, Vice Mayor  
Joe Dunn  
Brownie Newman  
Holly Jones  
Terry M. Bellamy  
Jan Davis

City Attorney

City Manager

City Clerk

Assistant City Manager

General Administration

Human Resources

Engineering

Building Safety

Police

Fire & Rescue

Transit Services

Finance

Civic Center

Planning & Development

Public Works

Parks & Recreation

Water Resources

# City of Asheville

## MISSION STATEMENT

The City of Asheville is committed to delivering an excellent quality of service to enhance your quality of life.

## CORE VALUES

In order to achieve our mission of providing quality service to enhance the quality of life in Asheville, we adhere to the following core values:

### **A**ccountability:

By being responsive and responsible to citizens and their elected representatives.

### **S**ervice:

By treating those whom we serve with respect and dignity.

### **H**onesty:

By providing accurate, truthful, and complete information.

### **E**fficiency:

By constantly striving to use technology and innovation to provide the highest level of service for the lowest possible cost.

### **V**ision:

By looking toward the future with a focus on creating a better Asheville.

### **I**ntegrity:

By approaching our work honestly, ethically, and with sincerity.

### **L**oyalty:

By diligently promoting and supporting the interests of the community we serve.

### **L**eadership:

By being a model for quality service and professionalism in our community and throughout the nation.

### **E**qual Opportunity:

By encouraging our diverse population to participate in the government of our city as citizens and employees.

*"Our Quality of Service, Your Quality of Life"*





# City of Asheville, NC

Accounting Division

October 30, 2004

To the Honorable Mayor,  
Members of the Governing Council,  
and Citizens of the City of Asheville, North Carolina

The Comprehensive Annual Financial Report (CAFR) of the City of Asheville, North Carolina, as of and for the fiscal year ended June 30, 2004, is submitted herewith by the Finance Department. This report is the official comprehensive publication of the City's financial position at June 30, 2004, and results of operations for the fiscal year then ended for all funds of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain maximum understanding of the City's financial activity have been included.

This comprehensive annual financial report is presented in four main sections:

1. Introductory Section – This section introduces the reader to the report and to the City. Along with this managerial overview, it includes the Certificate of Achievement for Excellence in Financial Reporting, listings of the City officials, a brief history of City, the City's Mission Statement and Statement of Values, responsibility of City government, and an organization chart.
2. Financial Section – This section includes Management's Discussion and Analysis, the Basic Financial Statements, notes to the basic financial statements, required supplementary pension information and the associated independent auditors' report. The Basic Financial Statements are split between entity-wide statements and fund financial statements. A full explanation of the basis of accounting of these two sections is included in the notes to the basic financial statements. The remainder of the financial section includes supplementary information, which presents combining schedules for the non-major Governmental Funds and the Enterprise Funds. This supplemental section also includes budget-to-actual schedules for all annually budgeted funds (other than the General Fund), as well as budgetary information for multi-year non-major Funds and Enterprise Capital Project Funds.
3. Statistical Section – The statistical section presents comparative statistical data, graphs, and other information involving taxes, revenues, expenditures, debt and social/economic data of the City.

To the Honorable Mayor,  
Members of the Governing Council  
and Citizens of the City of Asheville, North Carolina  
Page 2 of 7

4. Compliance Section – The compliance section presents schedules of federal and state financial assistance and the independent auditor's reports on compliance with various internal control and related financial assistance requirements.

Accounting Principles Generally Accepted in the United States of America (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Asheville's MD&A can be found immediately following the report of the independent auditors.

### **Description of the City**

The City of Asheville, incorporated in 1797, is located in the western part of the state, which is considered to be the top growth area in the state, and one of the top growth areas in the country. Asheville currently occupies a land area of 43 square miles and serves a population of 72,669. The City is the county seat of Buncombe County, the largest city in Western North Carolina and tenth largest city in the State. Asheville is nestled between the Blue Ridge and Great Smoky Mountains and located astride the French Broad and Swannanoa Rivers. The City is surrounded by lush mountains, many with elevations above 5,000 feet. Asheville's natural and architectural beauty, moderate climate, strong job market and outstanding educational and health care facilities make it one of the most attractive locations in the United States. Asheville is consistently ranked high among the best places to live, work and retire. The City's long-range planning is directed toward preserving this area's high quality of life, so that it shall remain one of the "best places."

The City of Asheville is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City of Asheville operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and six other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three council members elected every two years. The mayor is elected to serve a four-year term. The City Council has policy making and legislative authority. The Council is responsible for the budget approval and appointing the City Manager, City Attorney and City Clerk. The City Manager is responsible for implementing Council policies, City Ordinances, and managing daily operations and appointing department directors.

To the Honorable Mayor,  
Members of the Governing Council  
and Citizens of the City of Asheville, North Carolina  
Page 3 of 7

The City of Asheville provides a full range of services, including police and fire protection; the construction and maintenance of streets, and other infrastructure; solid waste services, water service and recreational activities and cultural events. The financial reporting entity includes all the funds and account groups of the City of Asheville (primary government), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and, as such, are included in the reporting entity. The Asheville Public Financing Corporation and the Asheville Claims Corporation are reported as blended component units. These organizations have no assets and liabilities and are not presented in the Basic Financial Statements. The Asheville Alcoholic Control Board is reported as a discretely presented component unit and is presented in a separate column in the Basic Financial Statements to emphasize that it is legally separate from the primary government and to distinguish its financial position, results of operations and cash flows from that of the primary government.

### **Economic Condition and Outlook**

Asheville is the regional center of manufacturing, transportation, health care, banking, professional services and shopping.

The economy is diverse, with strong representation in manufacturing, distribution, health care, retail trade and tourism. In the fiscal year ending June 30, 2004, the Asheville Metropolitan Statistical Area (MSA) had a civilian labor force of 122,186 with total employment of 117,896. Throughout the past year unemployment has averaged 3.6 percent and the rate for June 2004 was 3.5 percent. In the goods producing sector, yearly employment was 20,400 employees. During that same period, the service-producing sector had a total of 92,600 employees. Over twenty Fortune 500 firms have facilities in the Asheville MSA. Manufacturing employment represents over 12.2 percent of the non-agricultural civilian labor force. Asheville's manufacturing base has continued to evolve from labor-intensive, resource-oriented operations to a more capital-intensive, highly skilled work force, industries composed of fabricated metal products; machinery, automotive and electrical components, precision instruments and plastics and textiles. The health care sector continues as the fastest growing sector of the economy with strong prospects for sustained expansion in the future. This sector represents approximately 19,700 employees. The retail trade sector is dominated by several malls and over 4,000 small businesses with MSA total retail sales of \$3.55 billion for the year ended June 30, 2004. Tourism continues to be an important sector of the economy with revenues of approximately \$1 billion annually.

To the Honorable Mayor,  
Members of the Governing Council  
and Citizens of the City of Asheville, North Carolina  
Page 4 of 7

## **Budget Control**

In government, much more than in private business, the budget is an integral part of a unit's accounting system and daily operations. The North Carolina General Statutes require all governmental units to adopt a balanced budget by July 1 of each year. The City's budget ordinance, passed by the City Council, creates a legal limit on spending authorizations. Capital projects funds and grant funds are budgeted, as permitted by statute, for the life of each individual project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by fund or project total. For internal management purposes, the budget is detailed and compared to expenditures and encumbrances by line item within each department or project. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary controls. Encumbered amounts lapse at year-end. However, encumbrances are reappropriated in the following year's budget. Budgetary control is also facilitated by the use of an automated employee position classification system, which requires that every permanent position be budgeted.

## **INTERNAL CONTROL AND SINGLE AUDIT**

In developing and maintaining the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition; (2) the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America and maintaining accountability assets; (3) the effectiveness and efficiency of operations and (4) compliance with applicable laws and regulations related to federal and state financial assistance programs. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As a recipient of federal and state assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the Finance Department staff of the City. As a part of the City's single audit requirements, tests are made to determine the adequacy of internal controls as well as to determine that the City has complied with applicable laws and regulations.

To the Honorable Mayor,  
Members of the Governing Council  
and Citizens of the City of Asheville, North Carolina  
Page 5 of 7

The results of the City's single audit for the fiscal year ended June 30, 2004 are presented in this report, and disclose no instances of material weaknesses in the internal controls or material instances of non-compliance with applicable laws and regulations.

## **CASH MANAGEMENT**

North Carolina statutes authorize the City to invest in U.S. Government Agency Securities, U.S. Treasury obligations, commercial paper, bankers' acceptances, certificates of deposits and the North Carolina Capital Management Trust. The maturities of investments range from 30 days to 4 years, with an average maturity of eleven months. Investment earnings include unrealized gains and losses from the implementation of Governmental Accounting Standards Board (GASB) Statement 31, which requires certain investments to be recorded at market value. The City does not expect to realize these gains or losses because the City has historically held all investments to maturity and continues to plan to hold all investments to maturity.

The objectives of the investment program are to first minimize investment risk and then to maximize investment yield. During the year, the majority of the City's investments were in the City's investment portfolio. Funds were also maintained in the North Carolina Capital Management Trust for liquidity and diversity.

**Risk Management.** The City maintains a self-insurance program for certain general liability and casualty risks, fringe benefits and workers compensation obligations. Revenues and expenses for this program are recorded in the Risk and Benefits Management Division of the General Fund. For all of its self-insured retention programs, the City retains the services of outside third party administrators for the professional management and adjustment of claims. The City is protected by the placement of a \$15,000,000 excess-only liability program across the liability lines under the contract. The City also insures its real and property holdings, including its dams for a total of \$240,000,000 in assets. For the City's self-insured Workers Compensation and Employer Liability, the City retains out-of pocket losses of \$300,000 on specific claims and an aggregate loss of \$3,600,000 over a three-year period. The City carries a \$3,000,000 specific and aggregate excess over these deductibles, with the aggregate excess attachment 75 percent of the annual loss over a three-year period.

To the Honorable Mayor,  
Members of the Governing Council  
and Citizens of the City of Asheville, North Carolina  
Page 6 of 7

## OTHER INFORMATION

*Independent Audit.* The General Statutes of North Carolina require an independent financial audit of all local government units in the State. Dixon Hughes PLLC, independent certified public accountants, have audited the basic financial statements of the City, and their unqualified opinion has been included in this report. In addition to meeting the requirements set forth in State statutes, the audit also was designed to meet the requirements of OMB Circular A-133 and the State Single Audit Implementation Act.

*Awards.* The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Asheville for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement (Certificate), a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. The CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate is valid for a period of one year only. This was the twenty-fourth time that the City has received this prestigious award. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriate budget for the fiscal years ended June 30, 1989 through 2003. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

We recognize that responsibility for the contents of this report is the City's, but it would be inappropriate not to mention the cooperation of our independent auditors, Dixon Hughes PLLC, in its preparation. Also, this report could not have been prepared without the dedicated efforts of the City's Accounting Division as well as the cooperation of the other departments and divisions of the City. We would like to express our appreciation to all of these people for their contributions to this report. We would also like to thank the members of the City Council for their interest and support.

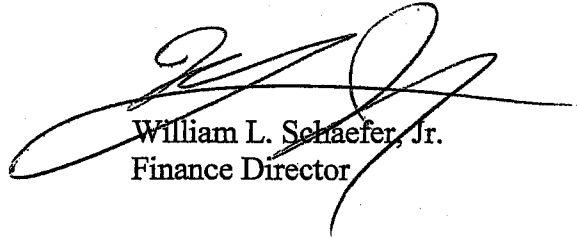
To the Honorable Mayor,  
Members of the Governing Council  
and Citizens of the City of Asheville, North Carolina  
Page 7 of 7

As required by North Carolina General Statute 159-34, a copy of this report will be filed with the Secretary of the North Carolina Local Government Commission. In addition, a copy will be sent to the City Clerk to be available for public inspection.

Sincerely,



James L. Westbrook, Jr.  
City Manager



William L. Schaefer, Jr.  
Finance Director



**DIXON HUGHES** PLLC  
Certified Public Accountants and Advisors

**- Independent Auditors' Report -**

The Honorable Mayor and Members of the City Council of the  
City of Asheville, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Asheville, North Carolina (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the Asheville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Asheville ABC Board, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the City of Asheville ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Asheville, North Carolina, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary





The Honorable Mayor and Members of the City Council of the  
City of Asheville, North Carolina  
Page Two

comparison for the general fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2004, on our consideration of the City of Asheville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Asheville, North Carolina. The introductory section, combining and individual non-major fund financial statements and schedules, statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and schedules and the schedule of expenditures of federal and State awards information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

October 15, 2004

*Dixon Hughes PLLC*